

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

EXPERIMENTAL PRESORTED PRIORITY
MAIL RATE CATEGORIES, 2001

Docket No. MC2001-1

DIRECT TESTIMONY OF
ROBERT F. KALENKA
ON BEHALF OF
UNITED STATES POSTAL SERVICE

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1 DIRECT TESTIMONY OF
2 ROBERT F. KALENKA
3 ON BEHALF OF
4 UNITED STATES POSTAL SERVICE
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8 AUTOBIOGRAPHICAL SKETCH
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10 My name is Robert (Bob) F. Kalenka. I am a Senior Vice President for ADP
11 Financial Information Services, Inc. , located in Edgewood, New York. My
12 responsibilities include planning, staffing and budgeting for the production operations of
13 our investor communications business. I have direct responsibility for managing the
14 relationship with the U. S. Postal Service. ADP provides in excess of \$350 million in
15 revenue to the Postal Service, primarily from a single location on Long Island. Prior to
16 being the leader of ADP's operation, I was responsible for financial reporting and
17 transaction processing.

18 From 1987-92, I held a variety of financial and administrative positions with the
19 Independent Election Corporation of America. From 1984-87, I was an auditor with a
20 Long Island based accounting firm.

21 In 1998, I accepted, on behalf of ADP, the prestigious Postmaster General's
22 Partnership for Progress Award, which is presented annually in recognition of
23 outstanding leadership and dedicated support in securing the future of the Partnership
24 for Progress. I have served as a guest speaker and as a panel member at several
25 Postal Service-sponsored management training sessions. In addition, ADP actively
26 participates in the Postal Service External Partnership program, whereby we assist in
27 training future Postal Service executives. ADP is a leading sponsor of the Long Island

1 Postal Customer Council (PPC) and an active member in the Mailers Technical
2 Advisory Committee (MTAC).

3 I hold a Bachelor of Science Degree in Accounting and a Master's Degree in
4 Finance from St. John's University. I am also a Certified Public Accountant (CPA) and a
5 member of the American Institute of CPAs and the National Association of Accountants
6 (NAA).

PURPOSE AND SCOPE OF TESTIMONY

The purpose of my testimony is to support the efforts of the Postal Service to establish presort discounts for Priority Mail pieces. I will discuss how ADP views the limitations of the Postal Service's current service offerings for Priority Mail. In addition, I will discuss how the proposed discounts related to Priority Mail would enhance the Postal Service's offering in the competitive expedited delivery market. I hope to demonstrate the value of this new service offering to ADP, as well as to the Postal Service.

1 II. The Proposed Presort Discount For Priority Mail Would Be A Beneficial Addition
2 To The Postal Service's Current Service Offerings.
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4 My firm, ADP, is a link to the investors of virtually every public company in North
5 America. We distribute quarterly reports, interim reports, news reports, corporate
6 announcements, prospectuses, brokerage statements, proxies, dividend checks and a
7 variety of other shareholder communications. Our clients include more than 800 banks
8 and brokerage firms, as well as over 400 mutual fund families, and we service over
9 14,000 public corporations. Our operation is ISO 9002 certified¹ and, accordingly, it is
10 committed to continuous improvement and growth. ADP currently utilizes the Postal
11 Service for Priority Mail, First-Class Mail and Standard Mail. We also use United Parcel
12 Service (UPS) and Federal Express for certain expedited delivery services. ADP works
13 in conjunction with the Postal Service to ensure our mutual clients receive efficient and
14 effective service delivery. In the interest of increasing the value of our shareholders'
15 investments, we continuously search for better, faster and less expensive delivery
16 methods within or external to the Postal Service. We travel to various postal facilities,
17 as well as competitors' sites, to gain ideas on efficiency and cost savings.

18 ADP processes nearly 1 billion pieces of mail annually, and accordingly, our
19 operational processes are highly automated. We purchase software from Group One
20 and Pitney Bowes, which arranges our mailing list in presort order for all of our mailings,

¹ ISO 9002 is an internationally recognized standard for quality. An ISO 9002 registered company is subjected to periodic 3rd party audits in order to maintain its status as compliant with the standards requirements. There are 20 elements to the ISO 9001 standard, one of which is design control. Since ADP primarily incorporates customer-supplied products into the service provided and does not design its product, it is not subject to this element (design control). As such, it is compliant to ISO 9002, which does not contain the element for design control.

1 including Priority Mail. Group One and Pitney Bowes provide the software that enables
2 ADP to comply with the sorting requirements set forth by the Postal Service for various
3 subclasses of mail. Group One provides the software to combine our 800 different
4 client lists into presort order, which enables ADP to qualify for many postal discounts.
5 The Pitney Bowes software enables ADP to add the 4-digit Zip Code extension and to
6 add the appropriate post-net barcode to our addresses.

7 Due to our investments in mail automation technology, ADP is well-positioned to
8 perform presorting of Priority Mail. Unfortunately, the current Priority Mail rates do not
9 offer work sharing discounts of any kind, and therefore do not provide any financial
10 incentive for mailers to presort Priority Mail.² The discounts proposed in this case would
11 address this deficiency.

12 It is clear that the experimental presort discounts proposed by the Postal Service
13 in this case would benefit ADP. They offer increased flexibility to mailers to choose the
14 Priority Mail services that meet their needs. Based on my discussions with senior level
15 postal officials, it is evident to me that opportunities exist for mailers such as ADP to
16 perform presorting operations more efficiently than the Postal Service. In such
17 instances, it surely makes sense for the mailers to perform the work, and for the mailers
18 to be compensated based on the costs avoided by the Postal Service.

19 It also makes sense to offer a range of choices to mailers, so that each can
20 select the combination of work sharing and postal services that best meets its needs.
21 The current Priority Mail rate schedule offers only one option to mailers, regardless of

² Until January 10, 1999, an eleven-cent presort discount was available for Priority Mail. It is my understanding that ADP was one of the few mailers that heavily utilized the discount. ADP certainly suffered financially when the discount was eliminated.

1 the mailers' capabilities to presort Priority Mail efficiently. The proposed presort
2 discounts would offer a wide range of flexibility, with three different discounts for three
3 different levels of presortation.³ If three levels of discounts are available, it seems likely
4 that many mailers ultimately will be able to use at least one. Presorting by mailers
5 obviously increases the efficiency of the entire delivery process and creates a winning
6 situation for mailers, postal customers and the Postal Service. ADP plans to fully utilize
7 all three proposed levels of sortation (five-digit, three-digit and ADC). We will likely sort
8 to the rate where we receive the biggest discount relative to the work involved. The
9 introduction of such discounts will certainly increase the value of Priority Mail to ADP
10 and other mailers, and will increase the likelihood that firms such as ADP will continue
11 to use the Postal Service for expedited document delivery.

12 In the current era of intense competition in the market for expedited delivery
13 services, it is more important than ever that the Postal Service implement such
14 enhancements to existing services that might better serve the mailers and keep their
15 mail pieces in the system. While ADP is determined to provide the fastest service to our
16 clients, we are also extremely focused on the price we pay for delivery service. In an
17 effort to obtain the best value for such delivery, we currently are negotiating with a
18 competitor of the Postal Service for a guaranteed second-day delivery product. Without
19 a significant discount in the Postal Service's \$3.50 one-pound Priority Mail rate, the
20 Postal Service pricing would exceed that of the competition. ADP enjoys an excellent
21 business relationship with the Postal Service and prefers to utilize the US Mail, but must

³ I note that in this and other respects, the discounts being proposed offer a greater range of options to the mailer and thus are superior to the presort discount offered by the Postal Service several years ago.

1 focus on cost as well. As part of a publicly traded company, ADP always seeks to
2 maximize the values of the investments of our shareholders and increasing profits by
3 lowering costs is critical for us. The discounts proposed in the current filing would
4 enable the Postal Service to retain significant volumes of mail from ADP.

5 The proposed rate structure also seems to be consistent with the sortation
6 schemes used in other classes of mail and should be relatively easy to implement.⁴ I
7 anticipate the transition time to comply with the proposed changes to be minimal and
8 the benefits of reduced cost to be quickly realized.

9 Finally, on those occasions in the past when ADP has presorted its Priority Mail
10 prior to presenting it to the Postal Service, ADP has noticed an improvement in the
11 speed with which our mailings reach our customers. For this additional reason, I
12 believe that the presort discounts will go far to helping the Postal Service maintain
13 Priority Mail volume in the increasingly competitive market for expedited, 2-3 day
14 delivery service.

15 16 II. Conclusion

17
18 For the reasons stated above, I support the Postal Service's experimental case
19 to allow presort discounts for Priority Mail.

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⁴ Under the previous Priority Mail presort regulations, ADP found the sortation requirements to be very labor intensive, because software was not available which could implement the requirements. The current proposal does not have this problem.